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Chief of Logistics

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Assistant Director for Communications

Price Increase Request for RS-6 Radio Sets (Contract FSC-148-UNV)

REFERENCE:

Letter from [] to Contract Division dated 10 September 1953,
Requesting Price Increase

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1. [] the contractor under FSC-148, has requested in the referenced letter a price increase of \$38.52 per set. A detailed breakdown of this increase is contained in Exhibit B of the letter. This exhibit tabulates the various cost effects of individual Special Agreements and Technical Action Requests entered into by the contractor and the Agency. TAR's 1 through 3 and 8 through 12 result in no price revision and hence have not been tabulated. The total of all the Special Agreements and TAR's Nos. 4, 5, 6, 7, and 13 less TAR No. 14 results in a cost increase of \$8.83 per set. This cost increase is applicable to 5,361 sets for a total cost increase of \$47,337.63.

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2. The TAR's involved in the above determination are hereby approved as being a change in scope under the original contract and it is requested that this amount be paid to the contractor. Funds are available in Allotment No. 4-6895-10.

3. TAR No. 14, also tabulated in Exhibit B to the contractor's letter, requests a price increase of \$29.69 per set. This is not approved for payment. A copy of this TAR is enclosed for your information. It requests approval predicated on two factors: (a) providing an Air-Test position and, (b) allowing greater time in inspection positions. The primary purpose of the Air-Test position is stated in Paragraph 1 of the TAR. The manufacturer is asking for an increase of \$9.25 per set based on a time study of this position. As noted in the "History of the Evolution of the RS-6 Radio Set", a copy of which is attached, the air-test position was requested by the Agency. The Agency requested that this Air-Test be established solely for the purpose of reducing the high rate of set-rejection after shipment to the Agency. In our opinion, it does not result in a "definite" increase in scope under the contract and therefore we cannot certify it for payment. However, since the Air-test position was established at the request of the Agency, and since it does require that the contractor assign additional personnel to the project resulting in a cost increase to them, it would appear that the Agency has a definite obligation to reimburse the contractor

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in this respect. In considering any reimbursement, it should be realized that the \$9.25 requested by the manufacturer includes rework costs for equipment found defective at this or subsequent test positions.

The same philosophy applies to this rework problem as that outlined in the next paragraph in connection with the second part of TAR 14.

4. The second part of TAR No. 14 requests an increase of \$20.44 per set based on the fact that greater time is required at inspection positions. The justification is contained in Paragraph 2 of the TAR. In arriving at this cost, it is understood that the contractor made a time study of each inspection and testing position associated with the production line. The "hours per set increase" arrived at by this method included not only the normal time required for one specific set to be properly inspected, but it also included additional time required if the set was rejected at any point along the line or in final Naval inspection, and had to be sent back for reworking and then re-inspected when it went through the line for the second time. It should be noted that during a portion of the time encompassed by this study, the rejection rate of sets was as high as 30%, thus materially increasing the "average number of hours required per set".

5. Since Contract FSC-148 is a fixed price contract subject to revision downward only, certification for payment cannot be made by this office unless an increase in scope of the contract is definitely established. Since the contractor, prior to his bidding on the 5,361 sets in question, had production experience in the manufacture of 500 RS-6X's and since a specification mutually acceptable to both parties had been formulated, it is believed that the contractor was in a position to submit a realistic proposal. This the contractor did, and it was accepted by the Agency prior to the manufacture of any of the sets in question. The contract stipulates that production units are required to meet "Specification No. 50-A-1006A, dated 18 September 1950, entitled, "Specification for the Type RS-6 Radio Equipment" and Amendments Nos. 1 through VII thereto, and the approved production prototypes of the RS-6 Radio Equipment delivered under Contract RD-16, with the exception that the changes stated below shall be incorporated into the sets:

- (a) Ground the shell of the battery-cable Jones plug.
- (b) Reinstate high-frequency choke L-202.
- (c) Bypass the high side of the low-frequency hash choke, L-201, with a 0.005 microfarad ceramic capacitor to ground.
- (d) Supply one (1) spare antenna current bulb with each set."

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Equipments received under this contract subsequent to approval of the specification and prototype approval have not differed materially from the original prototype except where covered by intervening TAR's. If there have been increases in the scope during this period, the manufacturer has only to submit additional TAR's covering these increases and they will be considered by this office. The manufacturer has been apprised of this fact on several occasions and, to date, has not submitted written documentation that any such increases took place.

6. It is only fair to say that in our opinion the contractor did, and had to do, the work outlined under TAR No. 14 in order to provide the Agency with satisfactory equipment. Since, in our opinion, no increase in scope to the contract is apparent in TAR No. 14, the problem of determining whether or not any relief is possible under the terms of the contract is being referred to your office for solution. The Engineering Division of the Office of Communications will render any assistance possible in this matter.

[Redacted]
Deputy

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Enclosures: (1) Copy of [Redacted] Letter dated 10 Sept. 1953
(2) Evolution of RS-6 Contract
(3) Copy of TAR No. 14

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Coordination:

OC-P (RDL)
R&D-PSC-148-UNV
Chrono
Dev-ep

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CHRONOLOGICAL HISTORY OF THE EVOLUTION OF RS-6 RADIO SET PRODUCTION UNDER CONTRACT PSC-148 WITH [REDACTED] ENCOMPASSING POINTS SALIENT TO THEIR LETTER DATED 10 SEPTEMBER 1953 REQUESTING A PRICE INCREASE.

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NOVEMBER 1951 - At this time the Agency was operating under a Letter of Intent issued to [REDACTED]. since Contract PSC-148 had not been formally promulgated. This Letter of Intent called for the production of 5,425 units of radio set RS-6 at a unit price of \$487.61 FOB Chicago. Delivery of the first 500 units, designated RS-6X, had just about been completed. These sets were not satisfactory to the Agency from the standpoint of long range production since they exhibited very poor workmanship and, in many instances, they did not meet the basic specification No. 50-A-1006A which was promulgated with and made a part of the Letter of Intent. [REDACTED], having had experience in the production of approximately 500 sets at this time, took exception to the basic specifications and amendments 1 through 4. They had evolved a production specification which was predicated on a compromise between our original document and what they believed could be accomplished in production line equipment.

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JANUARY 1952 - In order to rationalize the differences between these two specifications and in order to arrive at a compromise that would be acceptable to both parties, a conference was arranged between [REDACTED] and the Agency.

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At this conference, each item in the specification was discussed in detail until agreement was reached. As a result of this conference, Amendment No. 5 was formulated. This amendment, which was agreed to by both parties, resulted in the relaxation of many items contained in the original specification. It should be noted that because of this fact, Amendment No. 5 was to remain effective only for the production of an additional 1000 units of RS-6; however, it is still in force as of today. In April of 1952, the manufacturer took exception to certain items of Amendment No. 5. This was remedied by the promulgation of Amendment No. 6 which further relaxed the original specification. Again in May 1952, another amendment, No. 7, was required, resulting in additional relaxation.

APRIL 1952 - Contract RD-16 with [REDACTED], provided for the research and development necessary to evolve an RS-6 radio set suitable for production. Under the terms of this contract, the manufacturer was to supply five prototype units. The first prototype, No. 3, was received from the manufacturer in April 1952.

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This set was immediately made available, along with a copy of the basic Specification No. 50-A-1006-A and Amendments 1 through 7, to the National Bureau of Standards in Washington, D. C., for evaluation, and the preparation of a report stating in detail whether or not the equipment met each and every test item. This report was received by the Engineering Division of the Office of Communications in November 1952. It stated that the prototype met the specification in all but a few respects.

The remaining four RS-6 prototypes were received by the Agency in May 1952, and were immediately sent to our Engineering Laboratory for evaluation. Tests performed on these sets showed that they too, met the specification with only a very few exceptions. On 22 May 1952, a memorandum was sent to Contracts from the Engineering Division accepting the prototypes and requesting that the manufacturer be so informed.

The status of the program in May 1952 is summarized as follows:

- a. [] had production experience in the manufacture of approximately 500 RS-6X equipments.
- b. A definitive production specification, ostensibly agreeable to both the manufacturer and the Agency had been formulated.
- c. The RS-6 prototypes had been approved by the Agency as basically meeting the production specification and being suitable for production.

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JUNE 1952 - About this time, the Air Force became interested in the RS-6 and asked that the Agency procure 1500 units for their use. In order to fulfill this requirement, 100 RS-6X's currently in stock were shipped to the Air Force leaving 1400 units to be supplied from future production.

In view of this increased requirement and in order to give the contractor the opportunity to re-evaluate the stipulated cost per set, after both the Agency and the contractor had arrived at a specification mutually agreeable to both parties, the contractor was asked to submit to the Agency a new proposal for the production of a total of 6500 sets in lieu of the 5425 already under contract. Instead of a price increase per unit, which was more or less expected by the Agency, the proposal actually resulted in a price reduction from \$487.61 to \$445.04 per set FOB Chicago. This proposal was accepted by the Office of Communications and a memorandum so stating was sent to Logistics from the Assistant Director for Communications on 12 June 1952.

OCTOBER 1952 - The first 25 production models were delivered to the Agency in October 1952. By December 1952, a total of 208 units had been received. Upon inspection by the Agency, it was found that

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